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No. 90-407

In The

Supreme Court of the United States

October Term, 1990

COLLATERAL PROTECTION INSURANCE SERVICES, CONSOLIDATED FINANCIAL INSURANCE AGENCY, CONSOLIDATED FINANCIAL INSURANCE AGENCY OF NEVADA, AND BARRY MAASHOFF,

Petitioners,

v.

BALBOA INSURANCE COMPANY, NEWPORT INSURANCE COMPANY, NEW PORT MANAGEMENT CORPORATION, AND INSURANCE AUTOMATION CORPORATION,

Respondents.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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RESTATEMENT OF QUESTION PRESENTED

The facts do not present the issue petitioners suggest. The judgment below did not award damages for the reproduction of computer software. Neither did that judgment protect against copying of trade secrets. The judgment below awarded $3,721,000 in damages for loss of insurance underwriting and investment profits caused by the taking of respondents' business by petitioners' unfair acts in violation of state law. In addition to that unfair competition recovery, respondents were awarded $150,000 for the sale by petitioners of computer software owned by respondents. Thus, the question is:

Does this Court have jurisdiction to review the judgment of the state court awarding damages for loss of insurance underwriting and investment profits in the amount of $3,721,000 for unfair conduct of petitioners in violation of state law because, in addition to that unfair conduct, petitioners also misappropriated respondents' computer software, for which respondents were awarded the additional sum of $150,000 and if it does, should it?

PARTIES RESPONDENT

Balboa Insurance Company

Newport Insurance Company

Newport Management Corporation

Insurance Automation Corporation

PARENT AND SUBSIDIARY CORPORATIONS

Textron, Inc.

AVCO Financial Services, Inc.

AVCO Financial Services International, Inc.

Balboa Life Insurance Company

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BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Facts

Petitioners' statement of the facts of this case is incomplete and misleading, as demonstrated by the following from the opinion of the Court of Appeal but omitted in petitioners' statement of the "factual background" of the case:

1. While managing Balboa's tracking center in late 1983, Barry Maashoff began preparing to open the competing Trans Global insurance tracking service. (Petitioners' Appendix, 7a)

2. While still the managing agent for Balboa, Maashoff became manager of the Trans Global center and began planning for the new center's building and equipment in January of 1984. (PA 8a)

3. While still acting as agent of Balboa, for which he was being paid $1,500.00 per month, Maashoff planned the personnel requirements for defendants' competing center. (PA 8a, 39a)

4. Maashoff evaluated plaintiffs' personnel with Jan Melhaff, a department supervisor in plaintiffs' Stockton service center, to determine which of them to recruit for Trans Global. (PA 8a, 46a)

5. At the same time Maashoff began planning to move accounts from Balboa to Trans Global. (PA 8a)

6. Petitioners had a telephone line installed in Balboa's office to route calls directly from the Balboa service center to Trans Global's new center. (PA 9a)

7. Petitioners arranged for underwriting of collateral insurance with another carrier. (PA 9a)

8. For petitioners' new center, Maashoff recruited department supervisors Jan Melhaff and Darrell Fenley, as well as employee Jodi Thomas and advised other Balboa employees of the availability of jobs with Trans Global. (PA 9a)

9. Petitioners kept all of these activities secret from Balboa. (PA 8a & 46a)

10. In early May, Maashoff had Susan McCrory, a computer programmer for Balboa in Stockton, bring to Trans Global programs she had been working on for Balboa and spend her two week vacation working on them for Trans Global. (PA 10a, 43a)

11. Petitioners solicited the accounts previously sold to Balboa to leave Balboa and come to the Trans Global tracking center. (PA 9a)

12. Petitioners promised lenders there would be no change occasioned by the transfer, that the personnel and even the mail box would remain the same as would the procedures and tracking system. (PA 9a, 45a)

13. Barry Maashoff attempted "to solidify a loyal base of employees for Trans Global" with Balboa's employees at the Stockton service center. (PA 9a, 46a)

14. Maashoff tried to induce Darrell Fenley to organize a walkout to paralyze Balboa's Stockton tracking service operation. (PA 10a)

15. Petitioners told Balboa's tracking service clients of Balboa's lender account tapes and urged them to demand the information on them from Balboa. (PA 10a)

16. Petitioners had Balboa's Stockton employees delay notifying Balboa in Irvine when clients requested a move to Trans Global, while yet forwarding the client information tapes directly to Trans Global. (PA 10a)

The viability of Trans Global's new tracking center depended on the ability of defendants to offer Balboa's clients a complete service package duplicating as much as possible the procedures and personnel of Balboa's Stockton tracking center. (PA 45a) The critical factor in this endeavor was Barry Maashoff. (Petitioner's Appendix p. 46a) In establishing the competing center, Barry Maashoff, as the actor for the remaining defendants, breached his duties of confidentiality and loyalty to Balboa by setting up the competing tracking center and luring Balboa's clients and employees away. (PA 44a) For these acts causing Balboa's loss of insurance business income, the trial court awarded $3,721,000. (PA 75a)

REASONS THE WRIT SHOULD BE DENIED

I. This Case Does Not Present The Question Petitioners Pose

The facts in the record do not raise the question presented by petitioners. The judgment below did not award "damages under state law for the reproduction of computer software", except incidentally. Damages were awarded primarily for petitioners' acts of unfair competition in violation of state law having nothing to do with reproduction of computer software. The state law applied below was not "to protect against copying of trade secrets", but to protect against petitioners' taking of respondents' insurance business by unfair business practices in violation of state law which incidentally included misappropriation of respondents' software modifications. (PA 74a, 75a)

A. The judgment below was for violation of state law.

17 U.S.C. §301 provides:

> (b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to . . .
>
> (3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by §106.

Since §301(b)(3) preserves to the states all rights except those falling within the general scope of copyright as specified in §106, the initial inquiry is whether copyright is at all involved.

There was no claim in the trial court either of copyright infringement or of preemption. (PA 13a) The case made out in the trial court was identical in principle with *Bancroft-Whitney v. Glen*, 64 C.2d 327, 49 C.R. 825 (1966), a case arising long before the advent of computer software and involving no question of copyright. Merely listing the facts common to both *Bancroft-Whitney* and this case makes this clear:

1. the action was based on breach of fiduciary duty;

2. the complained acts took place during employment;

3. the employer sought no restrictions on the use of skills and knowledge gained while employed;

4. no publicly marketed product disclosed plaintiff's confidential information;

5. a cream of the crop recruitment list was created;

6. fellow employees were solicited;

7. a competitive business was formed;

8. all actions were done in secret;

9. the competitive business was aware of and ratified the actions;

10. the only source of experienced staff for the competitive business was from the plaintiff; and

11. trade secret was established. (In the case on petition, the computer software was but one of several trade secrets, including the support system for the clients, the commission structure of Balboa's agents, information concerning Balboa's employees and other information concerning clients and accounts.) (PA 21a)

Also compelling and unrelated to copyright is Comment E to Section 393 of the *Restatement of Agency*, quoted in the opinion of the California Court of Appeal: (PA 47a)

> A is employed by P as manager for a year. Before the end of the year, A decides to go into business for himself; in anticipation of this and without P's knowledge he contracts with the best of P's employees to work for him at the end of the year. At the end of the year, A engages in a competing business and employs the persons with whom he was previously contracted. A has committed a breach of his duty of loyalty to P.

The names of the parties here could be inserted without necessitating any change in the Comment.

Since the question of copyright preemption was raised initially on appeal, there is no record on any copyright issue, including the claim of preemption, in the trial court. (PA 13a) As the California Court of Appeal noted at footnote 16 (PA 16a), the record provides no basis for determining applicability of copyright protection here.

B. The award of $3,721,000 was not for violation of any right protected by §106.

Section 106 protects the rights of an owner of a copyrighted work to produce, distribute, perform and display the work exclusively. (Petition p.3) None of the things for which respondents recovered the sum of $3,721,000 included any of these things. (PA 75a) Neither the acts on which liability rested as shown by the facts from the California Court of Appeal opinion outlined at page 1 above, nor the interests protected, including respondents' loss of insurance underwriting and investment income, in any way resemble reproduction, distribution, performance or display of a copyrighted work or anything "equivalent".

Petitioners argue that the software was the key ingredient necessary for the success of their plot. Even were this true, it would not convert their acts of unfair competition in violation of state law into violations of copyright or rights equivalent to rights of copyright protected by §106.

The statute covers certain enumerated rights and their equivalents. Petitioners ask this Court to extend the sweep of the statute to things which by the very terms of

their petition can be seen to be far beyond its scope. There is no logical limit to the "House that Jack Built" argument petitioners advance. According to that argument, anything which may be affected by a right protected by the Copyright Act falls within its purview. Apparently hiring away respondents' key employees in violation of fiduciary duty is "copying" within the scope of the act, so that state law may not prohibit it. In essence, petitioners urge that so long as the miscreant can point to some relationship to another wrongful act which may violate a right of copyright, the states are powerless to redress the wrongful conduct.

Contrary to petitioners' rather convoluted argument that the California Court of Appeal's decision opens the way for a reversal, (Petition p.8) the Court of Appeal expressly decided on grounds other than trade secret in affirming the judgment:

> We need not determine, however, whether the lists and identities here technically were trade secrets. In this case, the sum of the actions speak louder than any of the individual parts. Rather, we shall conclude that Maashoff breached his duty of fidelity and confidentiality to Balboa by setting up a competing Business and luring Balboa's clients and employees away unfairly. (PA 44a)

Therefore, even were petitioners to prevail on the preemption argument with respect to copying, the judgment, except possibly to the extent of the $150,000 for sale of the software, will remain intact in favor of respondents for $3,721,000.

C. The award of additional damages for sale of the software was independent of the award for $3,721,000 for loss of insurance business profits.

The sale of the software to American Bankers was separate from the scheme to take respondents' business. The sale to American Bankers was in early 1983 (PA 7a), while the scheme of unfair competition developed in late 1983 and unfolded in 1984. (PA 7a-10a)

D. Petitioners' attack does not reach the substance of the judgment.

Petitioners focus on one discrete, minuscule aspect of the case as a basis for review, claiming their misappropriation of Balboa's software modification invokes federal preemption. The question petitioners raise relates to only 3.875% of the award. As the Court of Appeal pointed out below, even in the misappropriation area which it found to be preempted, only such of the remedy is preempted as relates to material which might properly be copyrightable. Otherwise, any claim for misappropriation survives. (PA p.38a & §301(b)(3)) Thus, even were petitioners to prevail in this Court, it would result in an insignificant modification of the judgment, since it is clear from an examination of the facts that the judgment for $3,721,000 rests on rights separate from the software misappropriation. As noted previously, the California Court of Appeal rested its decision expressly on grounds other than misappropriation of the software. (PA 44a)

II. The Conflict And Confusion Claimed By Petitioners As Reason For Granting The Writ Do Not Exist.

Even when applying the "subjective" extra element test, the courts make a clear differentiation between cases which involve rights in the nature of rights of copyright and those which involve rights which are not classic rights of copyright. The difference in result which petitioners attribute to a difference in approach by the courts is dictated instead by the nature of the right at issue in each case. Where that right is purely in the nature of classic or historic copyright, there is preemption; where there are rights under state law which are not those of classic copyright, the state action is not preempted. This is the analysis of Professor Nimmer, *Nimmer on Copyright* (1963, 1990 Rev.) §1.01[B] pp.1-11 *et seq.* and examination of the cases discussed by petitioners in §I B (Petition p.14) reaffirms its validity:

Avco Corp. v. Precision Air Parts, Inc., 210 U.S.P.Q. (BNA) 894 (M.D. Ala. 1980), aff'd on other grounds, 676 F.2d 494 (11th Cir. 1982)	Copying, but preemption issue not reached by appellate court.
Brignoli v. Balch Hardy and Scheinman, Inc., 645 F.Supp. 1201 (S.D.N.Y. 1986)	Seven non-copyright causes of action including trade secret and breach of confidentiality. No preemption.
M. Bryce & Assoc. v. Gladstone, 319 N.W.2d 907 (Wis.App. 1982)	Trade secret involved simply not equivalent to copyright at all. No Preemption.

Crow v. Wainwright, 720 F.2d 1224 (11th Cir. 1983)	Copying and distribution. Preemption.
Del Madera Properties v. Rhodes and Gardner, Inc., 820 F.2d 973 (9th Cir. 1987)	On court's analysis, nothing added to copying and distribution; no extra element. Preemption.
Ehat v. Tanner, 780 F.2d 876 (10th Cir. 1985)	Copying and publishing. Preemption.
Gladstone v. Hillel, 203 C.A.3d 977, 250 C.R. 372 (1988)	Conversion of jewelry and molds. No preemption.
Harper & Row Publishers, Inc. v. Nation Enterprises, 723 F.2d 195, (2d Cir. 1983), rev'd on other grounds, 471 U.S. 539 (1985)	Copying and distribution. Preemption.
Robert H. Jacobs v. Westoaks Realtors, Inc., 159 C.A.3d 637, 205 C.R. 620 (1984)	Distribution. Preemption.
Maheu v. CBS, Inc., 201 C.A.3d 662, 247 C.R. 304 (1988)	Interference with contract based solely on copying and publication. Preemption.
Mayer v. Josiah Wedgewood & Sons, Ltd., 601 F.Supp. 1523 (S.D.N.Y. 1985)	Copying and distribution. Preemption.
Motown Record Corp. v. George A. Hormel & Co., 657 F.Supp. 1236 (C.D.Cal. 1987)	Copying and distribution. Preemption.
Oddo v. Ries, 743 F.2d 630 (9th Cir. 1984)	Breach of fiduciary duty plus copying. No preemption.

Peckarsky v. American Broadcasting Co., Inc., 603 F.Supp. 688 (D.D.C. 1984)	Both copyright and non-copyright. Non-copyright contract issues not pre-empted.
P.I.T.S. Films v. Laconis, 588 F.Supp. 1383 (E.D.Mich. 1984)	Breach of fiduciary duty. No preemption.
Rand McNally & Co. v. Fleet Management Systems, 591 F.Supp. 688 (N.E.Ill. 1983)	Breach of fiduciary duty. No preemption.
Ronald Litoff, Ltd. v. American Express Co., 621 F.Supp. 981 (S.D.N.Y. 1985)	Both copyright and non-copyright. Non-copyright claims not preempted.
Schuchart & Assoc., etc. v. Solo Serve Corp., 540 F.Supp. 928 (W.D.Tex. 1982)	Breach of contract. No pre-emption.
S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081 (9th Cir. 1989)	Trade secret action, Cal. Civ. Code §3426 *et seq.* Not preempted.
Videotronics, Inc. v. Bend Electronics, 564 F.Supp. 1471 (D.Nev. 1983)	Copyright only. Preemption. No factual basis for discussion of trade secret; pure *dicta*.
Warrington Asso[illegible] v. Real-Time Engineering Systems, 522 F.Supp. 367 (N.D.Ill. 1981)	Trade secret distinguished from copyright. No pre-emption.
Whelan Associates, Inc. v. Jaslow Dental Laboratory, 609 F.Supp. 1307 (E.D.Pa. 1985), aff'd 797 F.2d 1222 (3d Cir. 1986), cert. denied sub nom. *Jaslow Dental Laboratory, Inc. v. Whelan Associates, Inc.*, 479 U.S. 1031 (1987)	Copying, preparation of derivative work and sale. Preemption.

Some of petitioners' confusion may stem from basing their analysis on the claims of plaintiffs rather than on the findings of the courts. Preemption depends on what the courts found, rather than what the parties claimed.

The courts in each of these cases clearly delineated the elements which controlled the outcome. There was no confusion. The approach taken in each opinion was dictated by the facts. Where purely classic copyright issues were alone present, they were the focus of the opinion. Where issues of state law were present, they were the focus and where the state law presented issues different from copyright, state law was not preempted. Both the principle and the application appear clear.

From even a cursory examination of the cases cited it is evident there is no confusion in the cases, only in petitioners' analysis.

Petitioners' analysis that "Courts that focus on the act of copying universally hold the state law preempted" (Petition p.17) is suspect, since *Rand McNally, Pecharsky* and *Gladstone,* all cited for this proposition, (Petition p.18) found claims for breach of fiduciary duty, contract breach and conversion were *not* preempted.

While petitioners may wish the opinion in *Aloha Airlines Inc. v. Director of Taxation,* 464 U.S. 7 (1983), had used different language, the case was decided in the context of taxation of interstate commerce and the language of the opinion was much more specific and less helpful to petitioners than the paraphrase offered as a quotation. (Petition p.13)

CONCLUSION

Although petitioners have attempted to craft in words an issue which might meet the standards for review by this Court, the facts of the case do not support the statement of the issue or the existence of any basis on which the issue as stated can be reviewed. The statement in the conclusion of petitioners' argument (Petition p.21) that "[i]f the application of the remedy is triggered by the act of copying, that remedy is equivalent to copyright and therefore preempted," points up the deficiency of the petition. The facts, such as the hiring away of respondents' employees, are clear that the application of the state remedy was not "triggered" by the act of copying the software. That failing, even on petitioners' statement of their position, there is no basis for review and the writ should be denied.

Respectfully submitted,

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